

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

Notice FC-154

1941-A

1980-B

For: State and County Offices

Using Operating Loan (OL) Funds for Real Estate Repairs and Improvements

Approved by: Deputy Administrator, Farm Loan Programs

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1 Overview

A

Background

FSA recently revised FmHA Instructions 1980-B and 1941-A to implement changes made by the Federal Agriculture Improvement and Reform Act of 1996. These changes removed from sections 1941.16 and 1980.175(c) the paragraph limiting OL funds used for improvements and building repairs to \$15,000.

B

Purpose

This notice clarifies current regulatory treatment of OL loan funds used for improvements and repairs to real estate.

C

Contacts

State Offices shall direct questions regarding this notice to LMD, Guaranteed Loan Branch.

Disposal Date

June 1, 1998

Distribution

State Offices; State Offices relay to County Offices

2 Authorized OL Purposes

A

7 CFR Parts 1980-B and 1941-A

7 CFR Parts 1980-B and 1941-A describe authorized loan purposes for the Guaranteed and Direct Operating Loan Programs. Included among these purposes are loans for:

- payments of costs associated with reorganizing a farm or ranch to improve its profitability
- purchase of farm or ranch equipment
- payment of annual operating expenses
- payment of farm, ranch or home needs.

This language permits use of OL funds for real estate improvements or repairs in certain cases. Before the latest revision, both regulations limited real estate improvements and repairs to \$15,000 annually. The present regulations do not include this limit.

B

Program Purpose

The Consolidated Farm and Rural Development Act provides that the Agency make OL loans for different purposes than the Farm Ownership (FO) Program. FO purposes include making capital improvements to a farm or ranch. Since Congress appropriates money for FSA to loan under separate programs, the Agency must ensure this money is not used for purposes other than for that which Congress intended.

While the purchase of real estate is expressly prohibited for the OL Program, it is reasonable to permit some OL funds to be used for repairs and minor improvements to real estate.

C

Guidelines for OL Purposes

OL loan funds may be used for limited real estate improvements and repairs according to the following guidelines.

- Repairs and improvements to existing structures which are to be expensed, rather than capitalized, can be considered an annual operating expense under section 1980.175 (c)(1)(iii) or 1941.16(c).
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2 Authorized OL Purposes (Continued)

C

Guidelines for OL Purposes (Continued)

- Fixtures to a farm building may be considered farm or ranch equipment and financed with OL funds under section 1980.175(c)(1)(ii) or 1941.16(b).
- Loans may be approved for building construction under either section 1980.175(c)(1)(i) or (iii) or 1941.16 (a) or (c) depending on the particular circumstances. Building construction may only be financed under the OL Program when the proposed building can be repaid within 7 years.

Example: An \$8,000 pole barn to house a combine could be authorized. However, a \$100,000 building financed with a 15-year amortization and a 7-year balloon payment is not permitted. The 15-year amortization period indicated this loan is for real estate rather than operating purposes.

- Any purchase of land is not authorized.
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